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SIGNATURE CREDIT IP = 0

OID & COMMON LAW SETOFF

The Zero-Point Initial Issue Price ($IP = \$0.00$) & Bouvier's Setoff Doctrine

Why Signature Credit is Valued at Zero at the Moment of Origination

- **Ex Nihilo Credit Origination vs. Intermediation**
  - Modern commercial banks do not lend pre-existing depositor funds or risk capital.
  - Credit is created *ex nihilo* ("out of nothing") at the exact temporal moment the borrower signs the negotiable promissory note ($\Delta Bank\ Assets = \Delta Bank\ Liabilities$).

- **The Civil Law Doctrine of Compensation (*Bouvier's Law Dictionary*, 1856)**
  - **Definition of Compensation:** *"When two persons are equally indebted to each other, there takes place a compensation between them, which extinguishes both debts... a reciprocal liberation between two persons who are mutually debtors and creditors for each other."*

  - **Dual Reciprocal Obligations at Origination:**
    1. **Obligation 1 (Maker to Bank):** Borrower delivers credit energy/value by executing the negotiable instrument (Bank Asset).

    2. **Obligation 2 (Bank to Maker):** Bank credits a transaction account with an identical deposit liability.
- **The Mathematical Reality of $IP = \$0.00$**
  - Because the bank advances zero pre-existing corporate funds, cash, or reserves, the bank instantly becomes a debtor to the maker for the deposited value.
  - Under *Bouvier's* doctrine of compensation/setoff, both reciprocal obligations extinguish each other dollar-for-dollar by operation of law.
  - Net risk capital advanced by the bank = $\$0.00$. Thus, the Initial Issue Price (IP) under Internal Revenue Code (IRC) § 1273 is mathematically zero:

$$IP = \$0.00$$

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Original Issue Discount (OID) & The "Can't Have It Both Ways" Paradox

Subtitle: Negotiable Instruments, Backup Withholding, and Institutional Duality

- **The Mathematical Formulation of OID (IRC § 1273)**
  - Original Issue Discount (OID) is defined as the excess of the stated redemption price at maturity (FV) over the initial issue price (IP):

$$OID = \text{Stated Redemption Price at Maturity } (FV) - \text{In}$$

  - Applying the zero-point baseline ($IP = \$0.00$):

$$OID = FV - \$0.00 = FV$$

  - *Conclusion:* The OID generated by the instrument is equivalent to the entire face value (FV) of the note.

- **The "Can't Have It Both Ways" Bank Paradox**
  - **Foreclosure Standing:** Banks assert standing in court by presenting physical promissory notes under Uniform Commercial Code (UCC) Article 3 / Bills of Exchange Act 1882, claiming the note is a liquid, transferable **negotiable instrument**.
  - **Tax Avoidance Position:** Banks simultaneously deny the instrument's negotiable status when attempting to bypass OID reporting and accounting liabilities under IRC § 1273.
  - **Legal Estoppel:** *Banks cannot treat an instrument as negotiable to seize real property while denying its negotiability to evade federal tax accounting.*

- **Generation of Backup Withholding Tax Liabilities**
  - Because $IP = \$0.00$ and future market value is high (FV), the spread creates massive OID discount income.
  - Institutions holding OID paper act as **nominee middlemen** under IRS Publication 1212.
  - This triggers statutory nonpayroll backup withholding tax duties (24%) remitted under the bank's Form 945 tax module (Master File Transaction MFT 16).

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Rebutting Securitization Claims: Why Bank Arguments Collapse Under Common Law Setoff

Subtitle: Why Secondary Market Pooling Cannot Overcome Baseline Setoff Rights

- **The Bank's Securitization Defence**
  - **Institutional Claim:** Banks argue that because a mortgage note was securitized, assigned a CUSIP/ISIN, and sold into secondary market trusts (SPVs) for face value, the initial issue price must have been the full face value ($IP = FV$).
- **Why the Securitization Argument Collapses**
  1. **Temporal Sequence of Origination:** Securitization occurs *downstream*. The initial issue price (IP) is fixed at the moment of creation, where net capital advanced was zero ($IP = \$0.00$).

  2. **Common Law Setoff Transcends Transfers (*Bouvier's*):**
     - Under common law setoff and UCC § 3-203 / § 3-302, a transferee or secondary market trust takes subject to all underlying defenses and setoff claims existing at origination.
     - Downstream pooling cannot retroactively create historical risk capital that the originating bank never advanced.

3. **The Principle of *Nemo Dat Quod Non Habet***
   - *"No one can give what they do not have."* An originating lender cannot assign greater beneficial rights than it possessed.

   - If the underlying debt was compensated/set off to zero at the apex ledger level upon execution, the accessory mortgage/security interest holds no independent legal force (*accessorium sequitur principale*):

$$Principal\ Debt = \$0.00 \implies Accessory\ Security\ Inte$$

- **Summary**
  - Signature credit originates at $IP = \$0.00$.
  - Common law setoff (*Bouvier's*) extinguishes the bank's claim of risk capital.
  - Securitization merely trades an OID derivative; it does not change the initial zero-point baseline.

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